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S/EEE MORNINGSTAR
DOE FOR HEGBURG, EKIMOFF
DOC FOR JBROUGHER
NSC FOR MMCFAUL, JELLISON

E.O. 12958: DECL: 09/15/2019
TAGS: EPET ENRG ECON PREL RS
SUBJECT: EDF TO JOIN SOUTH STREAM?

Classified By: A/ECON MC John Stepanchuk for Reasons 1.4 (b/d)

EDF MAY TAKE 10% OF SOUTH STREAM

¶1. (C/NF) French Embassy Energy Attache Vincent Pringault (protect) confirmed to us on September 15 that Electricite de France (EDF) is negotiating to participate in the South Stream gas pipeline project. Pringault told us that the deal, reported the same morning by Russian daily Kommersant, had yet to be concluded. He said a final agreement is likely to be reached in the next two months, but held out the possibility that it could also be derailed. Kommersant, citing anonymous sources, indicated Gazprom chief Alexey Miller would travel to France at the end of September to finalize the agreement, which would give EDF a 10% stake in South Stream along with rights to distribute unspecified amounts of South Stream gas in Europe. Pringault did not know whether EDF's possible 10% stake would come out of Gazprom's current 50% ownership or out of ENI's 50% share, but said EDF would only participate in the portion of the pipeline from Russia under the Black Sea. There has been no official confirmation of the deal by any of the entities involved.

¶2. (C/NF) Pringault said EDF only began negotiations with Gazprom about six months ago and approached the French government about its interest about three months ago. Pringault stressed repeatedly that EDF participation in South Stream, if it happens, should in no way be interpreted as a political statement regarding French-Russian relations or as an indication of French preference for South Stream over Nabucco. He explained the move is being driven by EDF, which wants to "expand its gas portfolio in Europe and to secure gas for its power plants." On the potential sidelining of Ukraine as a result of Nord Stream and South Stream, Pringault noted his understanding that both Nord Stream and South Stream would carry new gas and would not divert current flows, adding "at least that's what Gazprom claims." (Note: Gaz de France/Suez is reportedly negotiating to join the Nord Stream gas pipeline project. End note.)

GOOD NEWS FOR GAZPROM

¶3. (C) Alfa Bank Chief Strategist Ron Smith wrote in his daily report that the deal was not only positive for Gazprom

in terms of the South Stream - Nabucco "race" (as he called it), but also an important indication of long-term demand for Gazprom gas. UBS, in its daily report, also saw the news as an encouraging sign for long-term European interest in pipeline gas imports from Russia. Deutsche Bank's Pavel Kushnir (protect), however, indicated to us he is perplexed by EDF's move, saying he doesn't understand the benefit of committing to a pipeline project "given the abundance of gas sources in Europe these days."

COMMENT

¶4. (C) EDF, like its compatriots Total (a partner in the Shtokman gas field) and GDF/Suez (a potential Nord Stream partner), has a long-term interest in engagement with Russia and is likely entering South Stream in that context. However, while EDF's participation in South Stream would support both the pipeline and the future of Russian gas sales to Europe, we remain skeptical that South Stream will be built anytime close to its proposed completion date of 2015. Even with the backing of three state-controlled energy giants, the pipeline will need to prove it can supply gas to European markets as cheaply as alternatives -- a challenging hurdle given the project's estimated 24 billion euro price tag (Gazprom's own estimate). End comment.
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